

THE LEONARD LETTER

*A weekly electronic newsletter about
California government, business and taxes
Bill Leonard, Member
State Board of Equalization*

May 15, 2006

QUOTE OF THE WEEK

"The enumeration in the Constitution, of certain rights, shall not be construed to deny or disparage others retained by the people." --- Bill of Rights, Ninth Amendment to the Constitution

UNDER THE DOME

*****May Revise*****

I am heartened to see the Governor correctly labeling the recent revenue surge from volatile sources as one-time revenues. On the one hand, his May Revision places \$2.2 billion in reserve, which is not bad. He also proposes to pre-pay over \$3 billion of future debts, which is terrific. However, the Budget fight is just beginning. He has already committed at least an additional \$2 billion to be permanently added to K-12 funding. Additional funding for education will be made available through various one-time spending methods.

Governor Gray Davis had a similar approach to his 2000 budget but the big spending policies of the legislature forced him to capitulate to an out of control budget. Can Arnold Schwarzenegger break this pattern?

This proposal for 2006-07 still spends more than it receives so the deficit clock is still running. The new budget proposes to spend \$100,985,000,000 in the coming year and collect taxes and fees of \$93,866,000,000.

*****Debt vs. Cash for Infrastructure*****

The Legislative Analyst's breakdown of the \$600 million library bond, Proposition 81, says that over 30 years, at 5 percent, it will cost about \$1.2 billion to pay off both the principal (\$600 million) and interest (\$570 million). The average payment would be about \$40 million per year.

There will be over \$37 billion worth of bonds on the fall ballot. Carrying over the ratio and conditions from above, over 30 years the state would pay back the \$37 billion in principal, plus about \$35 billion in interest. If they were all sold together, the bonds would take about \$2.4 billion dollars per year of debt service.

If we spent \$2.4 billion per year directly from the General Fund over 30 years, the state would spend \$72 billion directly on needed projects without interest payments. By my math, this is a better deal than spending \$72 billion and getting \$37 billion worth of infrastructure.

TAXING TIMES

*****Bush's Tax Cuts are Progressive in Reality*****

It is granite-embossed wisdom that the President's tax cuts of 2001 and 2003 benefited primarily wealthy Americans. I have never thought much of this charge because any across-the-board tax cut will benefit those who pay the most taxes. So I was struck when I came across a just released May 2006 study by the Congressional Joint Economic Committee that shows how hyper-progressive the income tax system is even after the tax cuts. According to the latest data available, the top 1 percent pay more than a third of all federal income taxes – 34%. Even more striking thing is that the top 50 percent of earners pay almost all of the federal income tax – 96 percent! Considering that the bottom 50 percent of income earners pay only 3.5 percent of our federal income tax after the tax cuts, it is rather ironic that the conventional wisdom is the President has only served the rich. See for yourself:

<http://www.house.gov/jec/publications/109/rr109-36.pdf>

ISSUE FOCUS

*****A+ Response to Exam*****

As high school graduation day approaches throughout California, the media is focused on the first class of graduates required to pass the California High School Exit Exam. Judge Robert B. Freedman issued a ruling last week saying that because poor students do not have an equal education, they do not have an equal chance of passing the test. Therefore, he concludes, the test cannot be required to receive a diploma. Recently, the West Contra Costa Unified School District actually debated defying state law and giving diplomas to students who did not pass the exam. I wish to commend a member of the West Contra Costa Unified School District Board of Trustees who spoke on the matter with a clarity that seemed missing in news coverage of the exit exam and the court case. Trustee Karen Pfeiffer told students who were objecting to the quality of their schools, which they blame for their failure to pass, "We are charged to deliver education to you, and it is your job to show up and learn." Kudos to Pfeiffer for placing responsibility on students and their parents. She also said, "To continue to pretend that student who can't pass this relatively simple exam are high school graduates and should get a diploma is a disservice to the students and the community." Double kudos for reminding us that standards must actually mean something and have substance and value. The majority of the Board voted to keep the state requirement in place.

MISCELLANY

*****California County History*****

Kings County in the Central Valley was created in from part of Tulare County. In 1908 some 100 square miles of territory from Fresno County was added to Kings County The county was named for Kings River which, in turn was named by an 1805 exploring expedition that named it Rio de los Santos Reyes (River of the Holy Kings). The indigenous population was the Tache tribe of the Yokut Indians who controlled the entire San Joaquin Valley, from the Delta to Tejon Pass. The first incorporated community was Lemoore, a town site that had been surveyed by Dr. Lovern Lee Moore in 1872. The arrival of the Southern Pacific railroad in 1877 there helped the town grow. The second community was begun in 1877 along the railroad tracks at Perry Phillip's sheep camp. This town was named for James Madison Hanford, the paymaster of the Southern Pacific. Hanford was incorporated in 1891, became the county seat two years later, and is the largest community in the county today. As with the rest of the Central Valley, the Kings County economy was driven by ranching and farming. The first vineyard was established in 1890 and the first dairy was established in 1893. Both grapes and dairy remain important parts of the Kings' economy to date, and have been joined cotton, fruit, and nuts. Kings County is home to the Lemoore Naval Air Station and three California State Correctional facilities, two in Corcoran and one in Avenal.

*****A Good Read*****

On May 2nd Shelby Steele had a profound piece on the Wall Street Journal's opinion page that has since been widely discussed. Steele's premise is that "since Vietnam, American has increasingly practiced a policy of minimalism and restraint in war." He traces the reason for this restraint to the guilt that Americans feel for prior moral crimes: racism and imperialism. The idea is provocative and informative, and it is explored by author Dinesh D'Souza in his book "What's So Great About America." D'Souza does not pose the title as a question, but as a naturalized citizen he recognizes that there is something unique and amazing about this country. However, there is a flip side of our modern society that has angered many people in the world, particularly radical Islamists. D'Souza explores the reasons for their hatred and invites us to consider the validity of some of the reasons for their disdain for our culture: "Americans have only two things on their minds: money and sex."; "In America mothers prefer to work than to take care of their children."; "In our culture, parents take care of the children, and later the children take care of the parents. In America the children abandon the parents."; "America used to be a Christian country. Now atheism is the official religion of the West."; "Your TV shows are disgusting. You are corrupting the morals of your people."

At the same time as radical Islamists seek to destroy us, millions in the world want nothing more than to be here. D'Souza tells his own story of growing up in India where "birth is destiny" versus the possibilities of being in America, where instead of destiny, people have choices about their future. He writes, "The moral triumph of American is that it has extended the benefits of comfort and affluence, traditionally enjoyed by very few, to a large segment of society.... Ordinary Americans enjoy not only security and dignity, but also comforts that other societies reserve for the elite. We now live in a country where construction workers regularly pay \$4 for a nonfat latte.... it is entirely understandable that people would associate the idea of America with a better life. For them, money is not an end in itself; money is the means to a longer, healthier

and fuller life. Money allows them to purchase a level of security, dignity, and comfort that they could not have hoped to enjoy in their native country. Money also frees up time for family life, community involvement, and spiritual pursuits: this it produces not just material, but moral, gains.” D’Souza encourages us to recognize our flaws, understand our enemies, embrace our success and work hard to make ourselves and our nation better in every way.

BOE AND LEGISLATIVE DATES

May 17, 2006 --- BOE meets in Sacramento.

May 29, 2006 --- Memorial Day.

May 30, 2006 --- Last day to apply for an absentee ballot for the June 6th primary election.

June 6, 2006 --- Primary election.

June 13-14, 2006 --- BOE meets in Culver City.

June 15, 2006 --- Budget bill must be passed by the legislature by midnight.

June 27-28, 2006 --- BOE meets in Sacramento.

June 29, 2006 --- Last day for a legislative measure to qualify for the general election (Nov. 7) ballot.

July 4, 2006 --- Independence Day.

July 18-19, 2006 --- BOE meets in Sacramento.

NOTABLE DATES/ HISTORY

May 15, 1930 --- United Airlines introduced the first stewardesses on a flight from San Francisco, California to Cheyenne, Wyoming.

May 15, 1942 --- Gasoline rationing began in the U.S. during World War II.

May 15, 1957 --- Great Britain dropped a hydrogen bomb on Christmas Island in the Pacific, becoming the third nation, after the United States and the Soviet Union, with thermonuclear capabilities.

May 15, 1988 --- The Soviet Union began withdrawing its forces from Afghanistan nearly a decade after invading the country.

May 16, 1929 --- The first Academy Awards were presented in Hollywood, California. The movie “*Wings*” won for best picture.

May 17, 1792 --- A group of brokers met at a coffee house in New York City to organize the New York Stock Exchange. The first transactions were made under a tree on Wall Street.

May 17, 1954 --- Chief Justice Earl Warren, three-term Republican Governor of California and Republican vice presidential nominee in 1948, won unanimous support of the Supreme Court justices for school desegregation in “Brown v. Board of Education.”

May 18, 1291 AD --- The fall of Acre, the last Christian stronghold, ended Crusader rule in the Holy Land.

May 18, 1896 --- Republican Justice John Marshall Harlan, in a dissenting opinion from the Supreme Court’s Plessy v. Ferguson “separate but equal” decision, declared: “Our Constitution is color-blind, and neither knows nor tolerates classes among citizens.”

May 18, 1980 --- Mount Saint Helens volcano in Washington State erupted, causing an outbreak of fires, mudslides, and floods, killing 57 people.

May 19, 1643 --- Representatives from four New England colonies met in Boston and formed a military alliance.

May 20, 1639 --- Dorchester, Massachusetts formed the first school funded by local taxes.

May 20, 1506 --- Christopher Columbus died in poverty in Spain.

May 20, 1868 --- The Republican National Convention marked the debut of African-American politicians on national stage. Pinckney Pinchback and James Harris attended as delegates and several served as presidential electors.

May 20, 1927 --- U.S. aviator Charles Lindbergh took off from New York in the single-engine aircraft “Spirit of St. Louis” heading to Paris, France. It was the first nonstop, solo transatlantic flight.

May 21, 1881 --- Clara Barton established the American Red Cross, a counterpart to the European humanitarian agency founded in Switzerland in 1864.

May 21, 1932 --- Amelia Earhart became the first woman to fly solo across the Atlantic ocean, arriving in Ireland from Newfoundland, Canada.

May 21, 1961 --- U.S. President John F. Kennedy committed the country to “landing a man on the moon and returning him safely to Earth before this decade is out.”

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115
TDD service for the hearing impaired
TDD phones: 800-735-2929
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.